

SOE Board Talk

lakwe aolep

SOE Board Talk is an SOEMU initiative to engage with SOE boards and share important information and developments on SOE reform.

All SOEs should now be very advanced in preparation of their business plan for the period FY20 – FY22. If SOEs are experiencing any problems or any delays, [please notify SOEMU immediately. - 30TH JUNE IS THE DEADLINE](#)

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A Business Plan should give the reader a sense of the following:

- What does the SOE do
- Where is the SOE currently (in the business cycle)
- Where does the board want to take the SOE?
- Why? How does that benefit the SOE and shareholder?
- When do you want to get there (timing)?
- How will you know you are on the right path to achieve your targets (performance measurements)?
- What you need to get the SOE to the desired outcome
- What will you look like once you have arrived?

The Business Plan should outline the plan for the future operations of the SOE and contain forecasts relating to at least the next three financial years. The Business Plan (the Plan) should contain forecast profit and loss statement, balance sheet, cash flow statement, capex plan and statement of assumptions on which the forecasts are based and explanations for amounts taken up in the plan period. These financial projections would be quite detailed for the first twelve-month period – the first financial year of the plan -and then more general for the following two twelve-month periods.

The financial information for the first twelve-month period should also show actual results for the current financial year (or part year as the first draft of the business plan will be prepared before the end of the current financial year) and the preceding financial year to allow the reader to compare forecast against actual. A statement of the accounting policies adopted should also be included.

A Business Plan should include an evaluation of the SOE's current strategic position including an assessment of the SOE's business and operating environment. There should be a clear link between the strategic issues confronting the SOE, the SOE's objectives for the planning period, the strategies developed to ensure achievements of these objectives and the key actions that are related to the issues and strategies.

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Business Plans should also contain meaningful performance measures with targets to serve as benchmarks for review in subsequent periods.

Major events that may affect the SOE's operation and issues requiring Government decisions should be highlighted in the Plan.

All Business Plans should demonstrate how the SOE is achieving, or will achieve, the Primary Objective of operating as a successful business, as required under Section 610, SOE Act, 2015 (as amended)

Objectives, Strategies and Targets

Developing Business Plan objectives is the most fundamental part of the plan. Objectives are aims/goals of the management team during the planning period. They are neither a wish list nor an accumulation of all the issues facing the business, but rather a considered series of aims that are deemed both realistic to achieve and among the highest priority needs for the business.

Strategies need to be focused actions/activities that will, if done well, satisfy the objectives. Strategies require ownership (to implement the activity and to be accountable) and this should be a nominated person and (if no particular manager is nominated) then by default it is the CEO. Strategies also may require an allocation of resources (additional staff or budget) and this should be identified.

Identified targets need to be specific and realistic. Stretch targets that indicate improvements from the SOE are welcome, but realism is also needed. Clearly targets that indicate negative returns are not welcome, but if that is an initial thought, it should trigger the need (by management) to reconsider and re-evaluate the objectives, strategies, resource allocations and business priorities.

Growth strategies may be exciting, but realism rather than excessive optimism is required. Given various features of RMI economy, some SOEs need to consider growth in terms of efficiency gains as well as size (market share) gains. Efficiency is the means of achieving the same output/outcome with fewer inputs/resources; or, it is utilizing the same inputs/resources and gaining more output/outcomes. In labor terms this can be considered to be achieving the same revenues with fewer employees and in monetary terms it is achieving the same revenues with lower costs, or higher revenues with the same costs. All SOEs should be exploring efficiency gains across the entire business. In many instances, promoting efficiency in the market has corresponding gains both for the SOE and within the RMI economy.

Business planning should be seen as a process intended to guide the management of the business and to 'serve' the business in its executive decision-making.

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If the Plan is well developed it will be easy for management to see its value. The Plan, and the process of planning should be an add-value tool/activity that drives and supports the business and makes management tasks and decision-making easier.

If the above is not happening, usually it means the Plan is poorly constructed and the process was ineffective. Although it may be difficult developing an initial Plan for those SOEs unused to the process, all SOEs are encouraged to allocate sufficient time and effort to ensure that the planning process is well done to serve the business and ultimately the RMI community. SOEMU and MoF are ready to assist, as necessary.

SOEMU encourages all managers and directors to read again, relevant pages of the RMI SOE business planning and statement of corporate intent manual

*TIME NOW IS OF THE ESSENCE – A DRAFT BUSINESS PLAN FOR EACH SOE IS DUE BY 30TH JUNE, TO BE SUBMITTED TO SOEMU – **that is less than 3 weeks' time!***

Best wishes for business planning and this week in the boardroom

SOEMU